



## **Business Case and Proposal**

### **Formation of a Shared Internal Audit Service for Cambridge City Council and South Cambridgeshire District Council**

**VERSION 1.9**

## **1.0 Executive Summary**

- 1.1 Cambridge City Council ('CCC') and South Cambridgeshire District Council ('SCDC') have agreed the principle of working in partnership to deliver a range of shared services. This report sets out proposals for delivering a full, professional Shared Internal Audit Service (SIAS) across CCC and SCDC Councils that will meet the statutory requirements of the Public Sector Internal Audit Standards (PSIAS). Huntingdonshire District Council deferred the opportunity to join the shared service at this point in time.
- 1.2 Internal Audit has a vital role to play, as a key business partner, in helping Councils manage effectively through the challenges they face by ensuring that governance, risk management and control arrangements remain effective. To do this successfully, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage.
- 1.3 There were two main drivers behind the decision to consider reviewing the options available for improving the delivery of the IAS. These were:
  1. CCC and SCDC desire to have a strong business focussed leadership model in line with other shared services to lead the shared Internal Audit Service across the two Councils.
  2. Bringing together the professional discipline of internal audit into one team, provides the opportunity to deliver a more resilient and responsive service that would allow internal audit work to be carried out seamlessly and without boundaries across the two Councils.
- 1.4 This proposal recommends that the two Councils create a shared IAS. The service would operate and be governed in accordance with the principles that the two Councils have already agreed for the Phase 1 shared services, including the creation of a new joint lead role and the transfer of internal audit staff to one employing authority.

The Aims of the new service are:-

1. Improved audit coverage that is of a high quality
  2. Increased productivity
  3. The ability to audit, without boundaries, any of the current shared services.
  4. The ability to explore commercial opportunities and offer services to other organisations
- 1.5 In the last five years internal audit budgets across the two Councils have been reduced by £83k (23%). No savings are anticipated in year 1 of a new SIAS but the option for future year's savings will be explored once the audit requirements, new ways of working and the budgets for future years have been established.
- 1.6 There will be of £20K in year one as a one off cost. These costs (£15.8k for Cambridge City Council and £4.2k for South Cambridgeshire District Council will be covered by existing transformation funds within each authority.

- 1.7 A shared SIAS would create a pool of auditors available to work across the two Councils, providing additional resilience to cover holidays, training and any sickness.
- 1.8 Through working across more than one Council, the options for auditors to develop and use specialist skills will increase. Initiatives can be developed at one Council and then rolled out across the other. The new joint lead role will have the ability to develop a wider skills and knowledge base across the service. This is particularly important at SCDC who employ only one auditor, who is required to undertake the majority of internal audit reviews.
- 1.9 The two current internal audit teams are experienced and have good customer satisfaction levels. They have been kept informed of the proposals for a Shared Internal Audit Service and have all had the opportunity to comment on this Business Case and have specifically contributed to the development of the Vision Statement.

## **2.0 Proposal**

- 2.1 A professional, independent and objective SIAS is recognised by the two Councils as a key element of good governance. The requirement for Councils to maintain appropriate and effective internal audit arrangements is set out in the Accounts and Audit Regulations 2015<sup>1</sup>.
- 2.2 To meet the aims set out above, it is proposed that a Shared Internal Audit Service (SIAS) be formed. This will require the recruitment of the new role to lead the SIAS. Once the new joint lead role has been successfully filled then a Transfer of Undertakings (Protection of Employment), (TUPE) will take place in respect of those staff who currently work in the Internal Audit team at SCDC. The individuals will transfer to the employing authority (Cambridge City Council) to form a new single team.
- 2.3 Currently a 0.6fte service lead is provided to CCC and SCDC under an agreement with Peterborough City Council. The combined cost of audit management across the two authorities for 2016/17 is £51.9k. Management of the current Audit provision is currently being delivered by Peterborough City Council and this would be terminated. In subsequent years productivity gains and the removal of non-audit tasks will be looked at for savings. A copy of relevant organisational charts for each Council is shown in Appendix 1.
- 2.4 The new joint lead role would be responsible for leading a Shared Internal Audit Service that would have free access to review any services or activities undertaken by each Council whether collectively or individually this requirement would be reflected in the Internal Audit Charter. The key service deliverable is to provide assurance on each Council's control environment, comprising the systems of governance, risk management and internal control – this will include:

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<sup>1</sup> Accounts and Audit Regulations 2015 state that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance'.

- preparation and delivery of annual audit plans to each Council that are reflective of their strategic plans and objectives and the risks to their achievement
- providing an annual opinion statement on the adequacy and effectiveness of the Council's control environment and which may be used as a key assurance source when drafting the Annual Governance Statement
- communicating with stakeholders in a timely and appropriate manner the results of work undertaken
- considering whether operational and management arrangements are delivering the most economical, effective and efficient use of resources
- providing support and advice as required to managers on new developments, policy initiatives, programmes and projects as well as emerging risks

2.5 The other main non-audit duties that are currently performed by each of the two teams accounted for 63 days in 2015/16 (split CCC 40 days, SCDC 23 days) on the national Fraud Initiative. Each Council has reviewed these tasks and confirmed they will be re allocated to other teams at no additional cost. This will create some free capacity which will be reviewed following the creation of the audit plans for 17/18.

### **3.0 Delivery options considered**

3.1 Six options have been identified and assessed at a high level. These were:

- 1 The two services remain independent but work together on selected audits.
- 2 Develop a shared service as per Phase 1 (Legal, Building Control, IT) of the 3C shared service arrangement.
- 3 Co-sourcing (Option 2 above but with one or more of a range of specialist services procured from the private sector).
- 4 Expand option 2/3 with the inclusion of Peterborough City Council.
- 5 Outsource the service to the private sector.
- 6 Join an existing partnership.

3.2 The shortlisted options were assessed and reported to the 3C Shared Services Leaders' Group meeting in both November 2015 and February 2016. Following the February meeting it was agreed that a business case detailing the benefits of Option 2/3 should be prepared.

3.3 The other four options were rejected on various grounds including cost, resilience, capacity and staff implications.

3.4 The full business case for Option 2 was presented to the relevant committees at CCC, SCDC and HDC in autumn 2016. CCC and SCDC approved the

recommendation for a 3 way shared service. HDC Cabinet decided to defer the decision on joining the shared service. It is understood this deferral would be for a significant time period and therefore the option of a two way service has been brought forward. Should HDC wish to join the service in the future this would be in the context of joining an established service.

- 3.5 CCC and SCDC have developed this business case to progress with a two way shared service.

## 4.0 Existing internal audit provision

- 4.1 Each Council maintains an in-house Internal Audit Service. CCC and SCDC obtain their Audit Manager Service (0.6FTE) from Peterborough City Council (PCC) at a cost of £51.9k for 2016/17.
- 4.2 Excluding the lead auditor provided by PCC to CCC and SCDC, 5 fte auditors are employed. Details of the current staffing and budgets are shown in Appendix 2.

## 5.0 People Implications

- 5.1 As we bring new services together, there will be new management arrangements in place. We will be reviewing existing working arrangements to ensure that practices in place are the most appropriate for the new Shared Internal Audit Service. These will include a look at remote and flexible working arrangements and our accommodation needs, this is anticipated to be carried out in the first 12 months once the joint lead role has been recruited to.

## 6.0 Staffing costs

- 6.1 The 2016/17 budget (excluding the lead auditor provided by PCC to CCC/SCDC) for the two services is £228k. 97% of the service budget relates to staff costs, which includes staff salaries, professional training and development and computer audit costs.

	Total budget £	Staff costs £	FTE	Other costs £
CCC	187,170	180,360	4.0	6,810
SCDC	41,040	39,990	1.0	1,050
<b>Total</b>	<b>228,210</b>	<b>220,350</b>	<b>5.0</b>	<b>7,860</b>
<b>% of total budget</b>		<b>97%</b>		<b>3%</b>

## 7.0 Internal Audit Resourcing

- 7.1 The number of staff employed by each Council varies. There is no nationally agreed minimum or benchmark figure that can be used to judge whether the current auditor fte numbers are set at an appropriate level or not. However, the number of audit days and productivity levels are comparable.
- 7.2 The business case makes the assumption that the number of auditors employed is appropriate. This is because the Public Sector Internal Auditing Standards

(PSIAS) requires the lead role to prepare an annual audit plan that takes into account the requirement to produce an annual internal audit opinion. In determining annual internal audit coverage, PSIAS requires that if the lead role believes that the level of agreed resources will impact adversely on the provision of their annual internal audit opinion, then the consequences must be brought to the attention of the Audit Committee. No such concerns were reported to any of the two Councils Audit Committees in respect of the audit plans for 2014/15 or 2015/16.

- 7.3 The PSIAS were introduced in April 2013 and require each authority to be subject to an external independent review at least once every five years. Neither CCC nor SCDC have been reviewed as of yet. Consequently the shared service will require an external independent assessment by March 2018. If the SIAS is found not to be in compliance with the PSIAS, it is very likely that any bids for external work would be unsuccessful as conformance with PSIAS is a pre-bid approval requirement in many cases. Once the shared service is working effectively and working in accordance with the PSIAS, then the opportunity for it to become more entrepreneurial will be reconsidered.
- 7.4 It is proposed that for 2017/18 the number of audit days to be delivered at each authority will be at least that approved in the current 2016/17 plans. The audits will be delivered by any auditor employed within the shared service.
- 7.5 There no expectation of reduction of fte's across the shared service in year 1.

## **8.0 Benefits to be realised**

8.1 A shared SIAS should bring clear benefits, including:

- increasing the sharing of best practice and access to a larger pool of specialist knowledge;
- economies of scale e.g. training, resourcing specialist skills such contract audit and specialist fraud expertise;
- maximising productive audit time in line with industry best practice;
- providing for flexible deployment if and when necessary, and allowing staff to build up specialist knowledge of the council(s) they are working within; and
- providing better opportunities for staff to further careers within the internal audit function.

These benefits will be measured through the business plan and performance monitoring.

## 9.0 Vision for the future

9.1 The following Vision statement identifies the desired future outcomes for the shared service.

Vision – to be valued as an integral part of the business by providing high quality assurance, acting as a catalyst for change and advocating improvements to risk management, control and governance processes.

Objectives	Be a fully integrated commercial internal audit service across the 2 councils	Deliver robust assurance on risk managm't, control and governance processes	Be proactive, flexible, future-focused and innovative	Communicate in a clear, easy to understand and timely way	An attractive place to work
Principles	<p>One team.</p> <p>Alignment of audit plans &amp; processes.</p> <p>Clear performance targets.</p>	<p>Audit plans aligned with the strategies, objectives, and risks of the authority.</p>	<p>Audit plans responsive to speed of developments.</p> <p>Increase in collaboration and systems development.</p> <p>Be trusted advisors.</p>	<p>Encourage customer input prior to, during and after work undertaken.</p> <p>Report in the most appropriate manner.</p>	<p>Develop people's contributions for the benefit of the team and the individual.</p> <p>Flexible, home and remote working</p>
Activity	<p>Review of structure.</p> <p>One audit plan across the 3Cs.</p> <p>Auditors work at any of the 3Cs.</p> <p>New audit manual &amp; audit software.</p>	<p>Regular meetings with senior management to develop client relationships.</p> <p>Identify assurance gaps.</p>	<p>Undertake audits focused on specific &amp; immediate risks.</p> <p>Promote best practice and new ideas (e.g. continuous auditing).</p> <p>Marketing the benefits that can be gained.</p>	<p>Report actions aligned to risk appetite.</p> <p>Redesign audit report format.</p> <p>Interim reporting to drive change.</p>	<p>Focused staff development and training.</p> <p>Agile working – to meet the clients' needs.</p>
Outcome	<p>Standard and consistent processes. PSIAS compliance.</p> <p>Auditors work to same goals &amp; targets.</p> <p>Knowledge sharing amongst auditors and with managers.</p>	<p>Annual opinion report.</p> <p>Suggest ways to add value to service outcomes across 3Cs.</p>	<p>Real and immediate contribution to Council developments and initiatives.</p> <p>Provide timely advice when requested.</p>	<p>Influence and bring about meaningful change.</p> <p>Full and quick response to reports from managers.</p> <p>Educated client.</p>	<p>Motivated and engaged staff.</p> <p>Increased productivity.</p>

- 9.2 The Vision Statement has been shared and discussed with all of the internal audit staff and the management teams at each Council and been subject to review and challenge. It is supported by the two Chief Executives.

## **10.0 Meeting customer expectations**

### **Management**

- 10.1 One of the most important elements of an effective SIAS is the need to deliver a service that meets customer expectations. The Vision already contains a number of customer service components (e.g. engaging management throughout the audit process, regular meetings with senior management). A challenge for the lead role will be to quickly understand the expectations of each of the two Councils Management Teams and to introduce a formal and cohesive engagement programme so that the Vision can be delivered.
- 10.2 The joint lead role will strive to obtain a consensus of approach across the two Councils towards the delivery of key internal audit tasks, including:
- the involvement of managers (and audit committees) in developing the internal audit annual plan to ensure that it is relevant and consistent with each Council's corporate plan, objectives and risks and directs audit effort to the most appropriate areas;
  - agreeing procedures for keeping internal audit informed of emerging issues, risks and priorities so that the audit plan can be amended throughout the year and audit resources refocused;
  - agreeing the timetable for the delivery of individual audits so that disruption to business operations is minimised;
  - introducing one reporting format (including discussing different reporting formats, such as powerpoint reports or one-page summary reports, that could significantly speed up the reporting cycle) and one set of assurance and recommendation definitions;
  - reaching an understanding on the definition of 'timely' and developing processes to meet that time frame;
  - consulting effectively prior to new developments and initiatives being introduced so that the SIAS can contribute ideas and advice on an ongoing basis; and
  - building a relationship with the intelligent client at each Council to facilitate audit planning, the conduct of audits and provide periodic updates on the status of previously agreed audit recommendations.
  - reporting quarterly against priorities and key performance measures to the Shared Service Management Board.

The benefits that regular contact with customers will bring to the SIAS include:

- providing insights that will help to improve internal audit planning, prioritising of activities, and reporting;
- educating customers on the role that internal audit can and should play;
- demonstrating how internal audit adds value;
- marketing the contribution of an effective SIAS and the benefits to be gained;



- building relationships that are based on cooperation, collaboration and mutual respect; and
- trusting the lead role to 'tell it as it is' by reporting without fear or favour.

Whilst the responsibility for understanding the expectations of the customer will mainly be the responsibility of the lead role, all internal auditors will be expected to contribute to the achievement of the aims listed above.

- 10.3 One of the most important elements of meeting customer expectations is achieved by ensuring the audit reports deliver practical, constructive and actionable recommendations that are supported by robust evidence and findings. This is achieved by ensuring internal auditors adhere to professional standards and that their work is appropriately supervised and reviewed so as to monitor progress, assess work quality and coach staff. To ensure the joint lead role can maintain oversight of the work that is being performed across two sites, whilst still allowing auditors to work flexibly and in an agile manner, it is proposed to hold discussions with 3C IT shared service colleagues to investigate the options for an audit working paper and reporting system.

## **11.0 Audit Committee**

- 11.1 Elected Members are also a key customer for the SIAS. Each Council is required to conform with the PSIAS – which requires the appointment of a lead role and a Board (Audit Committee) to which the joint lead role reports on a regular basis.
- 11.2 It is proposed that the Civic Affairs Committee at CCC, the Audit and Corporate Governance Committee at SCDC will fulfil the Board responsibilities as set out within PSIAS.
- 11.3 The work of internal audit is carried out primarily for the benefit of the Board and the Management Team at each Council. For the Board, the lead roles annual report is likely to be significant assurance sources in assisting them discharge their responsibilities. This is because the joint lead role, in accordance with the PSIAS, has a responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes. It should also be noted that the role of Responsible Financial Officer (Section 151) places considerable reliance on the role of internal audit, including a view in respect of the key financial controls that underpin the accounts and the administration of the Councils affairs.
- 11.4 The lead role will report to the Board as required by the PSIAS. The issues to be reported include:
- the Internal Audit Charter;
  - the risk based internal audit plan and significant changes to the plan;
  - the internal audit budget and resource plan; and
  - the lead roles annual opinion and report and periodic reports that detail the performance of internal audit, conformance with PSIAS, key findings, significant issues of concern, audit recommendations outstanding and the results of both internal and external quality assurance assessments.

- 11.5. The joint lead role will communicate and interact directly with the Board, so as to safeguard their position in remaining free from interference in determining the scope, performance and the communication of findings from work undertaken. Furthermore, the joint lead role will have free and unfettered access to the Chair of each Board.
- 11.6 The joint lead role will also support the development of each Board by sharing good practice and new initiatives introduced elsewhere or, by organising training.

## 12.0 Risks

- 12.1 Any new service delivery model creates a specific set of risks over and above the 'business as usual' risks. The Shared Internal Audit Service risks that will need to be managed in the pre and post implementation phase are set out below:

Risk	Mitigation
1. Through concentrating on setting up the new service, the audit teams do not deliver the 2016/17 audit plan or those of its first year (2017/18).	<p>Clearly explain to PCC CIA what is required to be delivered by 31 March 2017 in respect of the CCC and SCDC audit plan.</p> <p>Prior to the commencement of the new service, appoint a joint lead role for the shared service that will prepare and agree with the Head of Finance a development programme covering the first year.</p> <p>Identify and manage 'business as usual' risks.</p> <p>Keep staff motivated through selling the benefits of the new service.</p> <p>Audit Committees amend the audit plans for 2016/17 to allow auditors time to contribute to developments and assist the joint lead role with setting up the new service. 2017/18 plans also include a similar time allowance.</p>
2. Resistance from team members to change.	<p><i>Pre new service:</i></p> <p>Engagement/consultation with the staff concerned. Reassure them on job security.</p>
3. Auditors unhappy with the new service and leave; qualified and experienced replacements unable to be recruited.	<p>Ensure the process is completed quickly and staff have confidence in the new arrangements.</p> <p>Staff take ownership of designing new processes and are engaged in the change process.</p> <p><i>Post new service:</i></p> <p>Continued engagement/consultation on changes being introduced.</p>
4. Failure to deliver increased productivity.	<p>Performance management targets introduced for all auditors linked to annual appraisal</p>

## Risk

## Mitigation

mechanisms.

Undertake comparative benchmarking in 2018/19 (based on first year of operation) and if necessary, introduce changes to working practices.

Introduce audit management software that allows the auditors to work across the two Councils and for file reviews to be completed remotely.

Introduce a management information system that enables both performance to be monitored and the early identification of issues, so allowing the joint lead role to take remedial action.

5. The reputation of the new service may be harmed if auditors/auditees or Managers do not see any immediate improvements or different approaches to the way in which the service is delivered.

The joint lead role meets managers prior to the new service starting and explains the changes/savings that will be delivered and within what time period.

The joint lead role meets frequently with managers to allow them to share and resolve their concerns.

6. Two Council's feel that they are losing direct control of their internal audit service by delegating its functions to one Council and consequently make frequent demands for additional work to be undertaken.

The joint lead role to meet regular with 'intelligent client' at each Council.

One Internal Audit Charter to be introduced that will set out the range of work that the shared service will undertake. The joint lead role will introduce a method for prioritising work demands and agreeing changes to the audit plan with the 'intelligent client'.

7. IT and other support services are not available or are inadequate to support agile working, threaten the opportunity for productivity gains and disrupt delivery of the audit plan.

Learn the lessons from the Phase 1 shared services that have already faced and resolved similar risk issues.

Investment in the necessary start up IT costs

Engagement with IT and support services throughout the implementation phase.

### **13.0 Governance and decision-making processes**

13.1 The same governance principles and decision-making processes that have already been agreed by the two Councils for the Phase 1 shared services will apply to the Shared Internal Audit Service.

13.2 In addition, the following is proposed for the Shared Internal Audit Service:

- The joint lead role to be line managed by the Head of Finance at CCC.
- The joint lead role shall remain independent and be solely responsible for managing the Shared Internal Audit Service.
- One Internal Audit Charter covering internal audit responsibilities across the two Councils will be prepared, reviewed annually and approved by the Audit Committee at each authority. The Charter will provide a framework for the conduct of Internal Audit across the two Councils.

### **14.0 Key performance indicators**

14.1 Setting key performance indicators for the service will assist in driving forward performance.

It is envisaged that one set of common indicators will be introduced that will meet the requirements of the two Councils. The indicators will be agreed between the joint lead role, the 'intelligent client' at each authority and their respective Audit Committee.

In addition to reporting the indicators to Members via the Audit Committee process, they will also be reported quarterly to the Shared Services Management Board.

### **15.0 Managing the Shared Service**

15.1 It is proposed that the shared service will be managed by a new joint lead role. They will be responsible for the delivery of the Shared Internal Audit Service to the two Councils in accordance with the PSIAS.

### **16.0 Timetable**

16.1 Following consultation with managers at each Council, a Business Plan will be developed that will deliver the benefits outlined within this Business Case. It is expected that the shared audit service will operate from April 2017

16.2 An outline implementation plan is shown at Appendix 3. The key elements of the plan include:

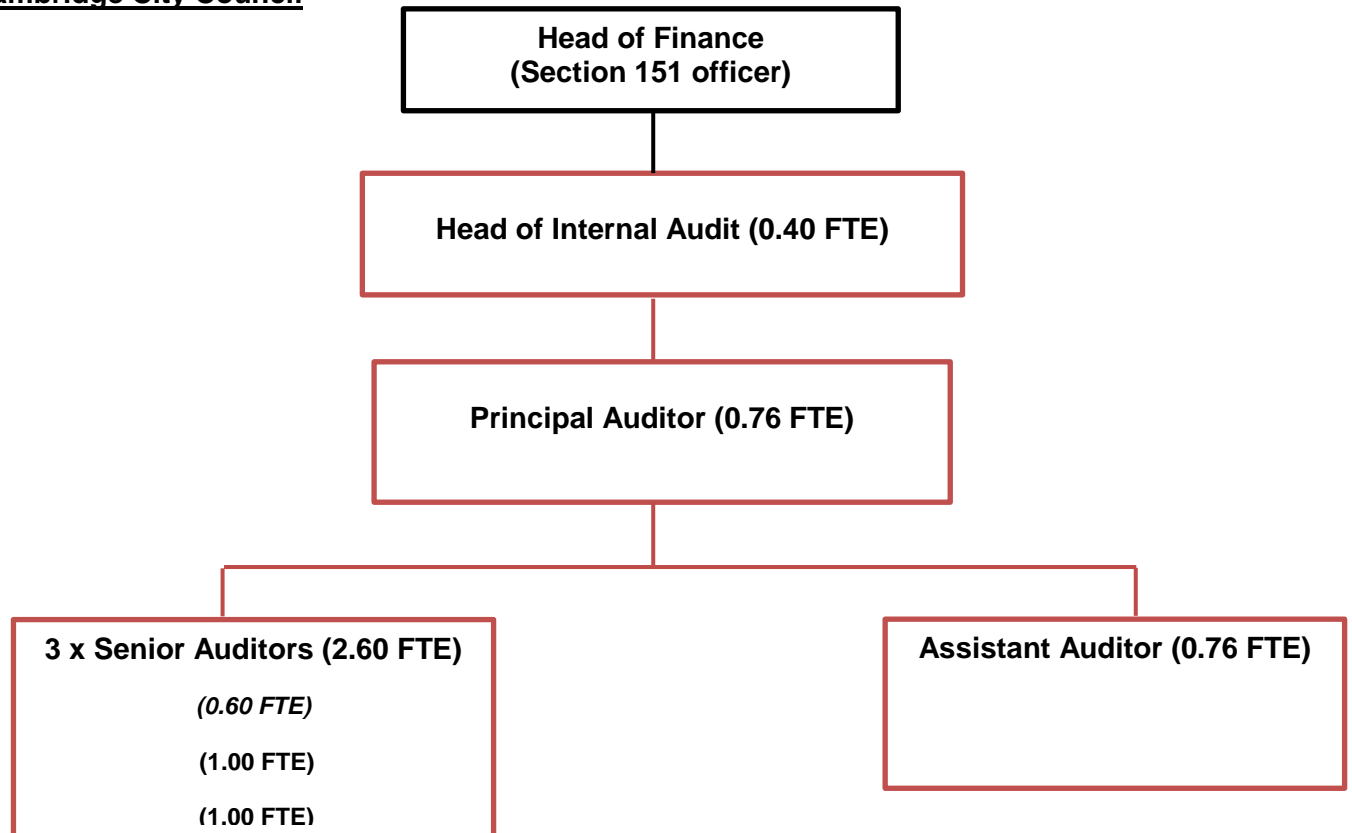
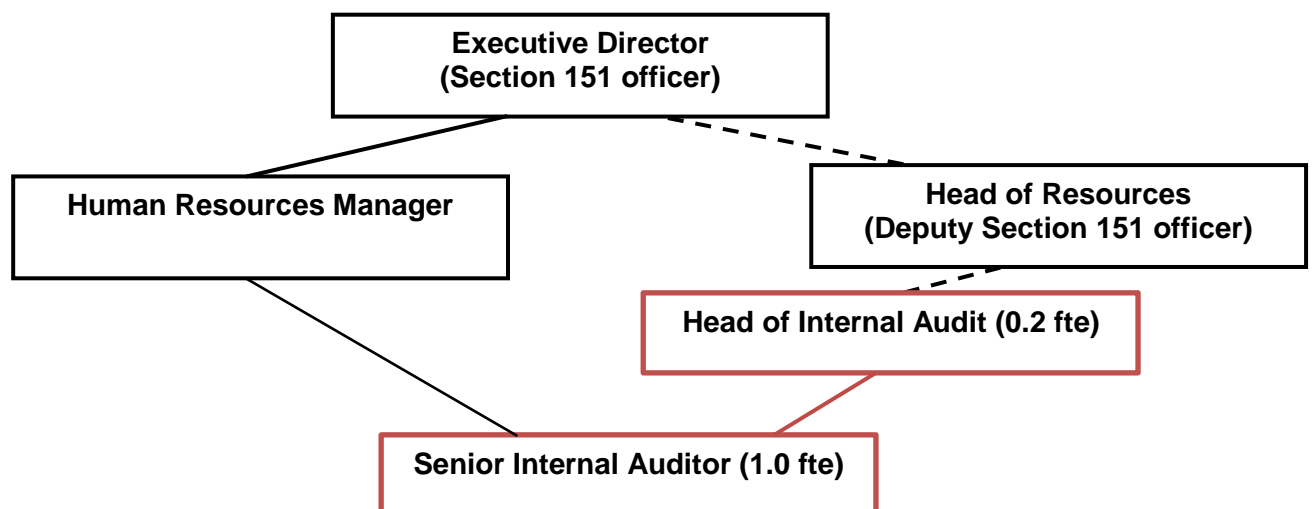
- It is anticipated that the Business Case will be discussed within the Member forum at each Council during January 2017. Formal consultation with staff, Unions/Staff Council commence in February 2017 in accordance with each Councils consultation policy.

**Internal Audit Service  
Service Delivery Options Considered**

**Appendix**

- 1 Organisational Charts
- 2 Budget details
- 3 Timetable for implementation

## Organisational Charts

Cambridge City CouncilSouth Cambridgeshire District Council

## Internal Audit Service Budgets

## Total Internal Audit Service budgets

	2012/13	2013/14	2014/15	2015/16	2016/17	Shared service
	£	£	£	£	£	2017/18
	£	£	£	£	£	£
CCC	280,050	279,200	218,380	213,720	222,110	222,110
SCDC	82,750	77,950	54,500	56,510	58,040	58,040
<b>TOTAL</b>	<b>362,800</b>	<b>357,150</b>	<b>272,880</b>	<b>270,230</b>	<b>280,150</b>	<b>280,150</b>
Savings already achieved 12/13 – 16/17					£ 82,650	
					23%	
Shared service savings 16/17 – 17/18						£ 0
						0%

The two tables below show the budgets per Council

Table 1

## Cambridge City Council

	2012/13	2013/14	2014/15	2015/16	2016/17
	£	£	£	£	£
<b>Employee costs</b>					
HolA costs	40,980	42,170	36,890	33,960	34,940
Salaries	226,390	224,180	168,380	168,920	175,340
Training	1,960	1,920	1,970	3,240	5,020
<b>Supplies &amp; Services</b>	<b>10,420</b>	<b>10,630</b>	<b>10,840</b>	<b>7,300</b>	<b>6,510</b>
<b>Transport</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>
<b>TOTAL</b>	<b>280,050</b>	<b>279,200</b>	<b>218,380</b>	<b>213,720</b>	<b>222,110</b>
Savings already achieved 12/13 – 16/17					£ 57,940
					21%

## Internal Audit Service Budgets

Table 2

## South Cambridgeshire District Council

	2012/13	2013/14	2014/15	2015/16	2016/17
	£	£	£	£	£
<b>Employee costs</b>					
External contractor	82,750	77,950			
HolA costs			17,000	17,000	17,000
Salaries			36,200	37,710	39,290
Training			1,000	700	700
<b>Supplies &amp; Services</b>			200	700	850
<b>Transport</b>			100	400	200
<b>TOTAL</b>	<b>82,750</b>	<b>77,950</b>	<b>54,500</b>	<b>56,510</b>	<b>58,040</b>
Savings already achieved 12/13 – 16/17					£ 24,710
					30%



# Timetable for implementation

**2016  
December**

Draft Business  
Case to Leaders  
Board

Briefing for IAS  
staff on  
Business Case

**2017  
January**

Business Case to  
Member  
Committees

2017/18 budget  
agreed

**February**

Staff Consultation  
  
TUPE consultation  
and feedback

**March**

Recruitment to  
lead role for  
service

Develop new  
working  
practices,  
reporting formats.

**April**

Service plan  
prepared

TUPE staff  
once lead role  
in place

**Commencement of Internal Audit Shared Service**